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PAMOUR PORCUPINE MINES, LIMITED

ANNUAL REPORT 1975

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PAMOUR PORCUPINE MINES, LIMITED

EXECUTIVE OFFICE ADDRESS:
P.O. BOX 45, COMMERCE COURT WEST
TORONTO, ONTARIO M5L 1B6
MINE OFFICE: Timmins, Schumacher, Ontario

DIRECTORS

P. D. P. Hamilton	Toronto
The Rt. Honourable Roland Michener	Toronto
R. V. Porritt	Toronto
J. J. Rankin	Toronto
W. S. Row	Toronto
D. E. G. Schmitt	Toronto
A. W. Stollery	Toronto

OFFICERS

D. E. G. Schmitt	President
W. S. Row	Vice-President
J. A. Graham	General Manager
B. H. Grose	Secretary
E. K. Cork	Treasurer

TRANSFER AGENT AND REGISTRAR:
Canada Permanent Trust Company, Toronto and Montreal

ANNUAL MEETING:
April 21, 1976 — 12:00 noon (Toronto Time), King Edward Hotel

DIRECTORS' REPORT TO THE SHAREHOLDERS

This 42nd Annual Report, which covers the calendar year 1975, includes a summary of operations at the four producing mines by the mine manager, the financial statements with explanatory notes and the auditors' report.

No dividends were paid during the year. The total dividends paid since commencement of operations in 1936 remains at $15,680,000.

The Nos. 1, 2 and 3 mines together suffered an operating loss totalling $1,894,000 compared to an operating profit of $2,575,000 in 1974. The Schumacher mine also recorded an operating loss of $1,705,000 compared to its 1974 profit contribution of $3,055,000. Mining operations, including an associate joint venture, showed a loss of $3,834,000 as compared to a profit of $5,630,000 in 1974. Metals in inventory at year end were valued at $130.00 per ounce of gold, $4.00 per ounce of silver and 60¢ per lb. of copper to a total of $7,333,000. Sales of 116,872 ounces of gold bullion averaged $162.84 per ounce and the average price realized for copper was 58¢ per pound.

The treatment of 1,800,000 tons of ore produced 125,047 ounces of gold in bullion and 12,859 tons of copper concentrate containing 3,900 tons of copper, 14,807 ounces of gold and 59,759 ounces of silver. In addition, 112,800 tons of gold-bearing material from outlying properties were treated on a toll basis in the No. 1 mill.

The critical loss was the result of a combination of several adverse factors. Total costs were some 21% higher than for 1974 but were in line with forecasts. Tonnages treated were down 12% due to shortages of skilled miners and suspension of scheduled extraction from workings that became sub-marginal with lower metal prices. Gold grades, marginal under current conditions, were down some 13% due to dilution and the erratic nature of the deposits. Marketing problems and the decline in gold prices, as the year progressed, resulted in an increased inventory valued at current low prices. Proven reserves of gold ore were reduced to 1,954,000 tons, averaging 0.14 oz/ton, reflecting exclusion of some material that had become sub-marginal, but mainly the disappointing experience of the past two years. For similar reasons, proven reserves of copper-gold ore were reduced to 1,766,000 tons averaging 0.65% copper, 0.039 oz/ton gold and 0.108 oz/ton silver.

In retrospect, the decision to expand No. 1 mill capacity for treating some 3000 tons of ore per day, in anticipation of rising and continuing high prices for precious metals and the viability of substantial tonnages of low grade gold bearing material in the area, was not well founded. The performance of labour has not responded in proportion to escalated wage payments. The inflated costs of equipment, supplies and materials have negated efforts to reduce unit costs of metals produced by increasing mechanization. The cost of producting an ounce of gold rose by some 29% in the past year.

Re-establishment and continuation of operations on a profitable basis is in question. During the last half of the year, major steps were taken to achieve full integration of all supporting services, including personnel, security, training and safety, assaying, purchasing, accounting, engineering, maintenance and other technical functions, under the control of a single manager. There has been a complete re-examination of ore reserve estimates and forecasts, resulting in salvage and abandonment schedules for some mining areas.

EXPLORATION

Examination and evaluation were carried out on 21 properties of which 5 could be of further interest under more favourable conditions. The exploration department was disbanded after the summer season to conserve funds.

The Mining Corporation joint venture on the New Joburke property was unsuccessful in the attempt to confirm a viable ore grade by underground bulk sampling. Some 106,000 tons of gold bearing material were trucked to the Pamour No. 1 mill from which 9,300 ounces of gold were produced. The results were disappointing and the project was terminated.

The former Coniaurum mine property, some 760 acres adjoining to the east of the Schumacher mine, was purchased for $245,000 from Westfield Minerals Ltd. effective January 1, 1975. A lower grade copper-gold zone developed for mining on the Schumacher property plunges to depth on the Westfield side of the boundary where increasing tonnages are being mined. The purchase agreement replaces former royalty agreements, the terms of which would have made further exploration and production uneconomic. Westfield retains a carried interest in the profits from mine production and the sale of surface rights. By this transaction, the entire property which has some potential for gold mineralization is available for exploration.

METAL MARKETS

Demand for metals declined sharply in 1975. Producer and Commodity Exchange inventories rose rapidly as metal movement to consumers and the product pipeline declined. Prices for most metals were lower and merchant quotations were at discounts to producer prices.

GOLD

Since 1972 there has been a substantial drop in the consumption of gold for industrial and jewellery applications, resulting in growing surpluses available for speculation and hoarding. While the gold price was rising in 1973 and 1974, these surpluses were readily absorbed by buyers hedging against inflation and anticipating further price rises. With the sputtering of demand in the U.S. when gold ownership became legal in January, the strengthening value of the U.S. dollar, heavy Russian sales to pay for Western grain purchases and the attractiveness of alternative investments, gold available to the market has exceeded demand and prices moved downward throughout 1975. The uncertainty and timing of procedures for disposing of the 25 million ounces of International Monetary Fund gold to help developing countries and the possibility of periodic U.S. auctions, have further depressed speculative interest and significant improvement in the current level of $125-$130 per ounce is not anticipated.

COPPER

Demand for copper dropped as consumption fell to 5.9 million tons, 17% below 1974 and 22% below 1973 levels. Producer stocks rose 700,000 tons to 1,500,000 tons.

The December London Metal Exchange price of 51½¢ per lb. was below the cost of production at many mining operations. The producer price was 63¢ in the U.S.A. at year end and 62¾¢ in Canada for cathode copper.

SILVER

Reduced industrial demand, the influence of lower gold prices and a higher than normal outflow of bullion from India resulted in weakening silver prices. The average price for the year was $4.42 per ounce. While the price fell to $4.18 at year end, industrial consumption is expected to strengthen and there should be some price improvement in 1976.

GENERAL

The Company recognizes that it has responsibilities to the shareholders, the employees, the community within which it operates and to the nation for maximum economic utilization of a natural resource. Declining metal prices and the insidious effects of inflation have severely strained the ability to respond satisfactorily to all of these obligations. Our people continue to evidence a strong determination to survive the current period of adversity but, in the best interests of all, limited financial resources will require hard decisions to be made.

The Directors acknowledge the continuing support and loyalty of all employees, regret that it has been necessary to reduce the scope of supporting services and to terminate the services of some long term employees, and will endeavour to meet all obligations fairly to the extent of the resources available.

On behalf of the Board,

D. E. G. SCHMITT,
President.

Toronto, Ontario,
10th February, 1976.

MANAGER'S REPORT ON OPERATIONS

The following report summarizes operations for the year 1975 at the Nos. 1, 2 and 3 mines and the Schumacher mine.

PRODUCTION		Nos. 1 & 2 Mines	No. 3 Mine	Schumacher Mine Gold Section	Schumacher Mine Copper Section	1975 Total	1974 Total
Ore milled	— tons	804,473*	212,303	211,242	684,680	1,912,698	1,780,595
Ore milled per day	— tons	2,204	582	579	1,876	5,240	4,878
Metal content of ore							
Gold	— oz./ton	0.095	0.156	0.180	0.027	—	—
Copper	— %	—	—	—	0.619	0.619	0.628
Silver	— oz./ton	—	—	0.014	0.107	0.107	0.105
Concentrate produced	— tons	—	—	—	12,859	12,859	15,191
Copper contained in concentrate	— lbs.	—	—	—	7,800,166	7,800,166	8,167,521
Gold in bullion and concentrate	— ounces	69,485	30,029	35,261	14,807	149,582	143,262
Silver in bullion and concentrate	— ounces	—	—	2,951	59,759	62,710	62,991
Recovery							
Gold	— %	90.87	—	92.77	79.54	—	—
Copper	— %	—	—	—	91.96	91.96	92.05
Silver	— %	—	—	—	81.79	81.79	79.28
Productivity	— tons/manshift	6.64	3.86	2.49	10.5	6.19	—
Employees at year-end	— No.	427	188	304	300	1,219	1,340

* Includes 112,812 tons of custom ore averaging 0.102 ounces of gold per ton.
No. 3 Mine Ore was treated in the No. 1 Mill.

MINING

Development Advances		Nos. 1 & 2 Mines 1975	Nos. 1 & 2 Mines 1974	No. 3 Mine 1975	No. 3 Mine 1974	Schumacher Mine Gold Section 1975	Schumacher Mine Gold Section 1974	Schumacher Mine Copper Section 1975	Schumacher Mine Copper Section 1974	TOTALS 1975	TOTALS 1974
Drifts and raises	— feet	6,181	7,409	4,066	2,697	1,812	2,608	2,335	1,787	14,394	14,501
Stope preparation	— feet	8,952	9,835	5,193	6,203	1,948	4,599	6,287	5,514	22,380	25,951
Diamond drilling	— feet	30,670	28,321	22,326	10,813	17,931	33,681	35,234	44,256	106,161	88,750

Development

No. 1 Mine development was concentrated on the 400′ and 2200′ levels to prepare major ore blocks for production. In the No. 2 mine, development was completed for two shrinkage stopes on the 4th level (760′) and development to recover a 41,000-ton block from the 5th level (960′) was nearing completion.

No. 3 mine development progressed on the 4300′, 4600′ and 4900′ levels to expose deep level ore. Development was stopped at No. 1 shaft and on the Romfield Property, due to lower metal prices.

At Schumacher, gold ore development was undertaken in 25 working places and accounted for 12,820 tons which included 7,250 tons of ore averaging 0.123 ounce per ton.

Copper ore development in the upper north zone added 215,000 tons to reserves. Development was started towards the irregular east zone ore body on the 3300′ and 3600′ levels.

Diamond Drilling

Three diamond drills were employed at No. 1 and No. 2 mines on routine ore outline drilling and exploration. About 300,000 tons of ore were blocked out in the south greywacke zone on the 800′ and 1600′ levels. Surface drilling was limited to 700 feet.

Diamond drilling at No. 3 mine mainly explored the lower level ore zone and extensions to the upper level veins.

Diamond drilling at Schumacher was routine exploring for extensions to the known vein systems. Encouraging intersections were encountered in holes drilled in the party wall along the Hollinger lease boundary between 1500′ and 1800′ levels. Drilling explored the downward extension of the main copper zone between 4300′ and 4600′ levels and also extensions to the 3300′ — 3600′ level east zone.

Stoping

Underground ore production from the No. 1 mine provided 83% of the ore to the mill with 495,000 tons from the east end and 39,000 from the west end. The remaining 17% or 92,000 tons was produced from the open pit. At No. 2 mine, breaking was completed in two shrinkage stopes which made 17,500 tons available for delivery beginning in December.

At No. 3 mine, 77% of the tonnage was obtained from cut and fill stoping, 12% from development and the remainder from stope preparation and shrinkage stopes.

Cut and fill stoping in the Schumacher gold section produced 61% of the ore to the mill, salvage from old stopes 24%, and longhole stoping and development the remainder. Some 41% of gold ore delivered to the mill came from sources which had not been included in proven ore reserves.

Copper ore production was obtained from 12 longhole stopes. Four stopes were completed during the year and three new stopes were brought into production.

Ore Reserves

Estimates of proven ore as of January 1, 1976 with allowance for dilution were:

	Tons	Gold Oz./Ton	% Copper	Silver Oz./Ton
No. 1 and No. 2 Mines	1,350,000	0.104	—	—
No. 3 Mine	253,000	0.195	—	—
Schumacher Gold Section	351,000	0.240	—	0.013
Schumacher Copper Section	1,766,000	0.039	0.647	0.108

For the No. 3 mine, current adverse conditions caused the deletion of 418,000 tons of sub-marginal material from net reserves. The other mines, together, were able to include sufficient new ore in reserves to replace 50% of the tonnage mined.

Exploration

Evaluation and limited assessment work was carried out on 21 properties. Five of these properties may be of further interest with an improvement in the gold price. The Westfield Property assessment will continue in the Spring. The exploration department was disbanded during the last quarter to reduce expenditures.

General

Reduction of the working forces, begun in July, was accelerated in November when all operations were placed under one manager. Integration of all possible services will be completed early in 1976 and redundant personnel terminated. Stringent cost reduction programs are in effect at all operations in an effort to offset lower metal prices and inflationary pressures.

In conclusion, I express my thanks to the staff and employees for their contributions to the operations during a difficult year.

Respectfully submitted,

Schumacher, Ontario,
February 2, 1976.

A. A. ADAMSON,
Manager.

STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1975

	1975	1974
	(in thousands)	
	$	$
Revenue		
Gross value of bullion and concentrates produced	**26,652**	30,963
Less: Treatment and marketing costs	**1,478**	1,290
	25,174	29,673
Expense		
Cost of production	**27,084**	22,191
Exploration expense	**36**	124
Administrative expenses	**264**	217
Depreciation and amortization	**1,624**	1,511
	29,008	24,043
Operating Income (Loss)	**(3,834)**	5,630
Investment Income		
Income from associated companies	**695**	767
Other dividends and interest income	**49**	90
Profit on sale of investments	**33**	96
Interest expense	**(510)**	(192)
	267	761
Net earnings (loss) before taxes	**(3,567)**	6,391
Income and production taxes	**(1,471)**	2,695
Net Earnings (Loss) Before Extraordinary Item	**(2,096)**	3,696
Extraordinary Item		
Reduction of taxes on income resulting from application of prior years' losses	**—**	800
Net Earnings (Loss) for the Year	**(2,096)**	4,496
Earnings (Loss) per Share		
Before extraordinary item	**(29.9¢)**	52.8¢
After extraordinary item	**(29.9¢)**	64.2¢

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1975

	1975	1974
	(in thousands)	
	$	$
Balance — Beginning of Year	**8,361**	6,315
Net earnings (loss) for the year	**(2,096)**	4,496
Dividends	**—**	(2,450)
Balance — End of Year	**6,265**	8,361

PAMOUR PORCUPIN

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BALANCE SHEET A

ASSETS

	1975	1974
	(in thousands)	
Current Assets	$	$
Cash	**196**	142
Bullion and concentrates	**7,333**	5,884
Income taxes recoverable	**464**	—
Marketable investments — at cost (quoted market value $963,000)	**1,093**	1,646
Accounts receivable	**279**	453
Stores — at cost	**2,010**	1,810
Prepaid expenses	**74**	26
	11,449	9,961
Investments (note 2)	**7,356**	7,354
Fixed Assets		
Plant, buildings, equipment and townsite — at cost	**9,279**	8,318
Accumulated depreciation	**4,338**	3,678
	4,941	4,640
Mine properties — at cost, less amortization	**1,798**	2,542
	6,739	7,182
Goodwill — at cost, less amortization	**14**	103
	25,558	24,600

AUDITORS' REPORT T

We have examined the balance sheet of Pamour Porcupine Mines, Limited as at December 31, 1975 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

INES, LIMITED

aws of Canada)

DECEMBER 31, 1975

LIABILITIES

	1975	1974
	(in thousands)	
Current Liabilities	$	$
Bank overdraft and short-term loans	7,269	1,795
Accounts payable	2,886	3,221
Due to associated companies	441	6
Income and production taxes payable	—	1,651
	10,596	6,673
Taxes provided not currently payable	309	1,178

SHAREHOLDERS' EQUITY

Capital Stock (note 3)	8,388	8,388
Retained Earnings (note 4)	6,265	8,361
	14,653	16,749
	25,558	24,600

Signed on behalf of the Board:

D. E. G. SCHMITT, Director.

W. S. ROW, Director.

SHAREHOLDERS

In our opinion these financial statements present fairly the financial position of the company s at December 31, 1975 and the results of its operations and the changes in its financial position for ne year then ended, in accordance with generally accepted accounting principles applied on a basis onsistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants.

ebruary 2, 1976

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1975

	1975	1974
	(in thousands)	
	$	$
Working Capital — Beginning of Year	3,288	1,533
Source of Funds		
Operations —		
Net earnings (loss) before extraordinary item	(2,096)	3,696
Depreciation and amortization	1,624	1,511
Taxes provided not currently payable	(869)	284
	(1,341)	5,491
Reduction of taxes on income resulting from application of prior years' losses	—	800
	(1,341)	6,291
Application of Funds		
Advance to associated company	2	210
Additions to fixed assets (net)	972	1,876
Additions to mine properties	120	—
Dividends	—	2,450
	1,094	4,536
Net Increase (Decrease)	(2,435)	1,755
Working Capital — End of Year	853	3,288

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1975

1. Accounting Policies

(a) Bullion and concentrates

Consistent with industry practice, the company records as revenue the estimated realizable value of bullion and concentrates awaiting settlement, in transit and on hand.

(b) Depreciation and amortization

Depreciation of plant, buildings, equipment and townsite, and amortization of mine properties and goodwill, are provided at rates designed to write-off the capital costs associated with each mine over its estimated productive life. Generally the straight-line method is used.

2. Investments

Investments include the following:

	1975	1974
	$	$
Shares in associated companies — at cost (quoted market value $11,302,000)	7,138,000	7,138,000
Shares in and advances to an associated company at cost adjusted by the company's equity in income or losses since the date of investment	218,000	216,000
	7,356,000	7,354,000

At December 31, 1975 the investments included 214,710 shares of Noranda Mines Limited with a quoted market value of $6,227,000 and 400,000 shares of Kerr Addison Mines Limited with a quoted market value of $3,900,000.

3. Capital Stock

(a) Authorized —

In accordance with Supplementary Letters Patent issued to the company on June 11, 1975, the authorized share capital was altered from 10,000,000 shares of no par value to:

10,000,000 Class A common shares of no par value
10,000,000 Class B common shares of no par value

The Class A and Class B shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that the directors may specify that cash dividends on Class B shares be paid, in whole or in part, out of 1971 capital surplus on hand (as defined in the Income Tax Act).

(b) Issued and fully paid —

As a result of the aforementioned amendment to the authorized share capital, the 7,000,000 shares previously outstanding were altered such that the issued share capital at December 31, 1975 was as follows:

	Shares
Class A	6,752,861
Class B	247,139
	7,000,000

4. Anti-Inflation Act

The company is subject to the provisions of the Anti-Inflation Act and Regulations and as a result the company's ability to increase prices, profit margins and compensation, and to pay dividends is restricted.

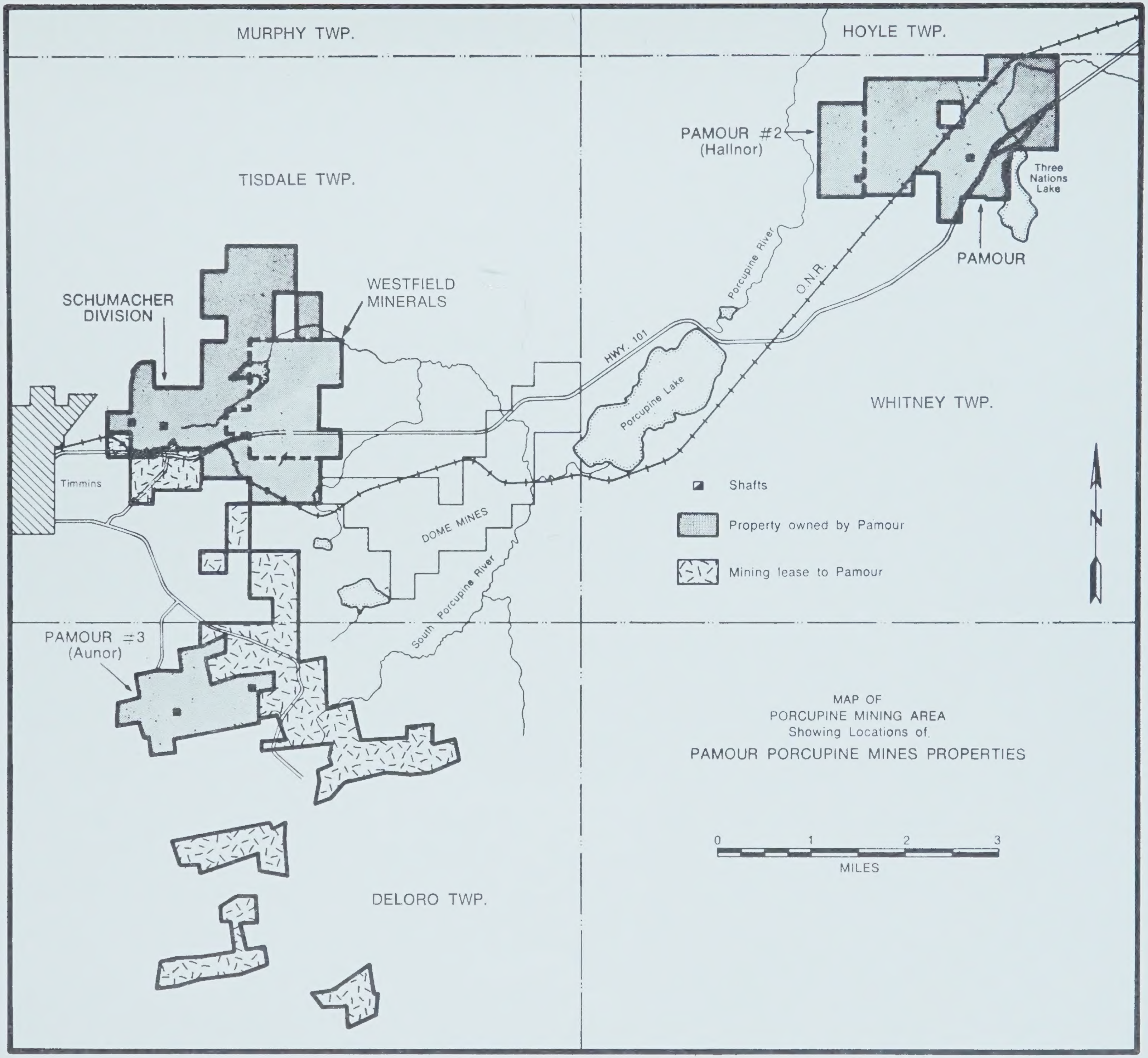
5. Statutory Information

The aggregate direct remuneration paid or payable to the seven directors amounted to $10,600. Two of the seven officers of the company are directors. No remuneration is paid to officers other than for services as directors.

The aggregate direct remuneration paid or payable to the five highest paid employees of the company amounted to $130,928.

6. Reclassification of Accounts

Certain of the 1974 comparative figures have been reclassified to conform with the presentation adopted in 1975.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TISDALE TWP.
WHITNEY TWP.
DELORO TWP.
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DIVISION
WESTFIELD
MINERALS
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Timmins
DOME MINES
South Porcupine River
PAMOUR #3
(Aunor)
Shafts
Property owned by Pamour
Mining lease to Pamour
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MAP OF
PORCUPINE MINING AREA
Showing Locations of
PAMOUR PORCUPINE MINES PROPERTIES
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MILES

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